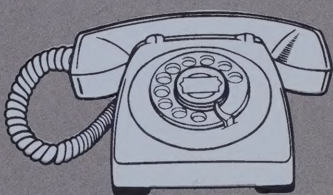
Annual Report 1967

ANGLO-CANADIAN TELEPHONE COMPANY



715 Victoria Square, Montreal 1

ANGLO-CANADIAN TELEPHONE COMPANY (Incorporated under the Quebec Companies Act)

Directors

THOMAS A. BOYD
JACQUES BRILLANT
JAMES J. CLERKIN, JR.
ARISTIDE COUSINEAU
JOHN J. DOUGLAS
THEODORE S. GARY
CYRUS H. MCLEAN
DONALD C. POWER
A. S. TORREY
LESLIE H. WARNER

Officers

JOHN J. DOUGLAS
President

THEODORE S. GARY
Vice-President

CAMERON HOUGH
Vice-President, Secretary and Treasurer

HAROLD H. HOWLETT
Assistant Secretary

RICHARD F. HARDY, *Assistant Treasurer*

Transfer Agents and Registrars

CUMULATIVE PREFERRED STOCK
The Royal Trust Company, Montreal, P.Q., Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John and Halifax

COMMON STOCK
The Company

TO THE SHAREHOLDERS:

March 11, 1968

Submitted herewith is the Thirty-Third Annual Report of Anglo-Canadian Telephone Company covering operations of the Company and its subsidiaries for the year 1967 with comparative results for the preceding year. The balance sheets and related statements of income and earnings retained for use in the business are presented on both an individual corporate and a consolidated basis.

Consolidated net income for the year ended December 31, 1967 amounted to $8,722,445 compared with $6,712,854 in 1966. The $2,009,591 increase in consolidated net income reflects the continued growth of all subsidiaries and also the inclusion of a full year's operations of Québec-Téléphone compared with only five months' operations in 1966. (Anglo acquired a majority interest in the common stock of Québec-Téléphone in 1966 and the consolidated statements for that year include Anglo's share of the results of operations of Québec from August 1, 1966.) Preferred stock dividend requirements of Anglo were $2,059,704, an increase of $812,941 over the previous year, as a result of all preferred stock issues being outstanding for the full year 1967 while certain issues were outstanding for only part of 1966.

Corporate net income for the year 1967 amounted to $5,128,465, an increase of $1,334,604 over the results obtained in 1966. Accruals of interest, dividends, and service fees from Compania Dominicana de Telefonos, C. por A. were included for the year 1967 although actual receipt of such income will, as in the past, be delayed due to Exchange Control Regulations in the Dominican Republic. In addition, during 1967 the Company received amounts totaling $288,564 applicable to dividends declared in 1965 but not recorded in the accounts of the Company in that year due to the political and economic disturbances then existent in the Dominican Republic. Conditions in the Dominican Republic have since improved considerably and the dividends previously deferred are being taken into income as received.

The principal source of Anglo's earnings is a majority-owned subsidiary, British Columbia Telephone Company (Brico). Brico, along with its subsidiary, Okanagan Telephone Company, controls and operates approximately 99% of all telephones in the Province of British Columbia. Telephones in service were increased by 55,269 during the year and at December 31, 1967 totaled 855,657. Total operating revenues rose to $126,827,916 in 1967, an increase of $10,287,545 or 9% over the previous year's comparable revenues,

and income available for fixed charges increased to $28,534,854 in comparison with $25,207,467 a year earlier. Net income available for ordinary shares was $11,617,610 for the year, compared with $11,144,318 in 1966.

Québec-Téléphone, a majority-owned subsidiary, is another important source of earnings for Anglo. At December 31, 1967, Québec and its subsidiary had 126,426 telephones in service, a gain of 7,148 during the year. Total operating revenues rose to $20,500,349 compared with $17,569,328 in 1966, an increase of $2,931,021 or 17%, and net operating income was up by $784,110. Net income available for common was $2,084,246 for the year compared with $1,710,203 in 1966.

Compania Dominicana de Telefonos C. por A., a wholly-owned subsidiary of Anglo, operates a telephone system in the Dominican Republic. Telephones in service were increased by 2,275 during the past year, totaling 32,131 at December 31, 1967. Total operating revenues increased $675,946 or 17% in 1967 over the previous year, rising to $4,686,094 and net operating income was up 68% to $1,522,122. Net income available for common increased to $1,464,586 compared with $861,711 in 1966. The increase in operating revenues and the consequent increase in earnings is due to the improvement of the economic and political conditions in the Dominican Republic.

The construction programs for 1968 for Anglo's telephone subsidiaries, as now planned, total more than $90,000,000. The expansion and service improvement planned will provide a strong base for continued growth in future years.

On Behalf of the Board of Directors,

John J. Douglas

President.

ANGLO-CANADIAN TELEPHONE COMPANY (Incorporated under the Quebec Companies Act)

Balance Sheets as at December 31, 1967 and 1966

Assets		1967	1966
INVESTMENTS – substantially at cost (Notes 2 and 3)			
Subsidiary companies		$92,698,318	$91,934,780
CURRENT ASSETS			
Cash		$ 180,187	$ 300,895
Due from subsidiary companies (Note 2)		3,178,858	4,060,855
		$ 3,359,045	$ 4,361,750
UNAMORTIZED DEBT DISCOUNT AND EXPENSE		$ 91,212	$ 109,243
		$96,148,575	$96,405,773

Liabilities and Capital		1967	1966
SHAREOWNERS' EQUITY			
CAPITAL STOCK (Note 4)			
Common		$11,046,850	$11,046,850
Preferred		37,500,000	37,500,000
		$48,546,850	$48,546,850
PREMIUM ON CAPITAL STOCK		25,308,247	25,308,247
EARNINGS RETAINED FOR USE IN THE BUSINESS –			
Unappropriated (Note 7)		14,577,160	11,508,399
Appropriated for general contingencies		425,000	425,000
		$88,857,257	$85,788,496
6% SINKING FUND DEBENTURES SERIES A			
Due February 1, 1983 (Note 6)	$4,160,000		
Less: Sinking fund instalment due February 2, 1968	260,000	$ 3,900,000	$ 4,160,000
CURRENT LIABILITIES			
Long-term debt–current sinking fund maturity (above) (less amount purchased for sinking fund)		$ 144,000	$ 199,000
Accounts payable		17,766	38,462
Accrued interest on debentures		101,100	108,975
Accrued dividends on preferred shares (subsequently declared)		343,542	269,238
Income taxes payable		6,260	6,152
Notes payable to parent company (Note 8)		2,350,000	5,400,000
		$ 2,962,668	$ 6,021,827
DEFERRED CREDITS AND OTHER LIABILITIES			
For employees' benefits		$ 13,960	$ 20,760
Provision for contingencies – subsidiary company (Note 10)		414,690	414,690
		$ 428,650	$ 435,450
		$96,148,575	$96,405,773

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board of Directors

JAMES J. CLERKIN, JR., Director   JOHN J. DOUGLAS, Director

Statements of Income and Expenses

For the Years ended December 31, 1967 and 1966

	1967	1966
INCOME		
Dividends, interest and other income from subsidiaries (Note 2)	$ 5,714,756	$ 4,703,952
Other income	8,333	9,875
	$ 5,723,089	$ 4,713,827
EXPENSES		
General, administrative and contractual expenses	$ 250,371	$ 229,203
Interest and amortization of debt discount	437,282	686,747
Income taxes	(95,218)	1,900
Other taxes	2,189	2,116
	$ 594,624	$ 919,966
Net income for the year	$ 5,128,465	$ 3,793,861

Statements of Earnings Retained For use in the Business Unappropriated (Note 7)

For the Years ended December 31, 1967 and 1966

	1967	1966
Balance at beginning of year	$11,508,399	$10,945,293
Add:		
Net income for the year	5,128,465	3,793,861
	$16,636,864	$14,739,154
Deduct:		
Dividends paid or provided for —		
4½% cumulative preferred stock	$ 281,250	$ 281,250
$2.90 cumulative preferred stock	362,500	362,500
$2.65 cumulative preferred stock	848,000	582,817
$3.15 cumulative preferred stock	567,954	20,196
Common stock	—	1,587,496
	$ 2,059,704	$ 2,834,259
Share issue expenses	—	396,496
	$ 2,059,704	$ 3,230,755
Balance at end of year	$14,577,160	$11,508,399

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheets (Note 1)

As at December 31, 1967 and 1966

Assets

	1967	1966
FIXED ASSETS		
Land, buildings, plant and equipment, at cost (including $32,891,127 being excess of carrying value of investments in subsidiaries over underlying book values as of the dates of acquisition)	$703,293,027	$634,540,841
Less: Accumulated depreciation	136,560,525	120,499,202
	$566,732,502	$514,041,639
CURRENT ASSETS		
Cash	$ 2,990,268	$ 3,618,400
Bank deposit receipts	300,000	230,000
Accounts and notes receivable, less allowance for doubtful accounts	20,680,723	18,994,746
Due from affiliated companies	134,135	112,023
Materials and supplies, at cost	11,619,274	10,082,873
Prepayments	1,476,918	1,387,477
	$ 37,201,318	$ 34,425,519
NON-CURRENT ASSETS		
Special refundable tax	$ 1,736,795	$ 1,250,426
Other	718,468	308,311
	$ 2,455,263	$ 1,558,737
DEFERRED CHARGES		
Unamortized debt discount and expense	$ 5,600,519	$ 5,227,721
Other deferred charges	2,620,229	5,372,202
	$ 8,220,748	$ 10,599,923
	$614,609,831	$560,625,818

The accompanying notes form an integral part of these financial statements.

Liabilities and Capital

	1967	1966
SHAREOWNERS' EQUITY		
CAPITAL STOCK (Note 4)		
Preferred	$ 37,500,000	$ 37,500,000
Common	11,046,850	11,046,850
	$ 48,546,850	$ 48,546,850
PREMIUM ON CAPITAL STOCK	25,308,247	25,308,247
EARNINGS RETAINED FOR USE IN THE BUSINESS —		
Unappropriated	33,288,274	26,854,049
Appropriated for general contingencies	1,090,397	1,017,168
	$108,233,768	$101,726,314
PREFERRED SHARES OF SUBSIDIARIES OWNED BY PUBLIC, AND MINORITY INTEREST		
Preference and preferred shares (Note 5)	$ 84,578,200	$ 84,740,400
Minority interest in ordinary and common shares	70,399,286	68,163,934
	$154,977,486	$152,904,334
LONG-TERM DEBT (Notes 6 and 7)	$260,752,928	$229,481,500
CURRENT LIABILITIES		
Long-term debt — current portion (less amount purchased for sinking fund)	$ 3,541,788	$ 2,329,000
Bank loans (partly secured) (Note 6)	30,700,000	24,443,000
Notes payable to parent company (Note 8)	2,350,000	5,400,000
Accounts payable	7,397,387	5,424,102
Accrued interest on long-term debt	3,966,644	3,446,194
Accrued dividends	2,375,723	2,244,610
Due to affiliated companies	5,000,847	5,258,033
Advance billings and payments	3,681,738	3,223,653
Income taxes payable	3,135,612	6,636,933
	$ 62,149,739	$ 58,405,525
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes (Note 9)	$ 27,712,538	$ 17,402,823
Provision for contingencies — subsidiary company (Note 10)	414,690	414,690
Provision for employees' benefits	65,534	30,811
Other deferred credits	303,148	259,821
	$ 28,495,910	$ 18,108,145
LONG-TERM COMMITMENT (Note 11)		
CONSTRUCTION PROGRAMME (Note 12)		
	$614,609,831	$560,625,818

Consolidated Statements of Income and Expenses

For the Years ended December 31, 1967 and 1966

	1967	1966
OPERATING REVENUES –		
Local service	$ 78,094,848	$ 64,723,191
Toll service	70,807,063	57,167,724
Miscellaneous	6,633,836	5,585,592
Less: Provision for uncollectible accounts	(1,089,846)	(1,084,876)
	$154,445,901	$126,391,631
OPERATING EXPENSES AND TAXES –		
Maintenance	$ 28,241,932	$ 24,134,776
Provision for depreciation	30,682,379	24,898,613
Traffic, commercial, general administrative and other	38,076,230	31,070,222
General taxes	5,993,189	4,506,989
Income taxes	6,976,330	14,584,580
Provision for deferred income taxes (Note 9)	9,779,064	321,148
	$119,749,124	$ 99,516,328
Net operating income	$ 34,696,777	$ 26,875,303
OTHER INCOME –		
Miscellaneous — net (including $984,594 and $803,637 interest charged to construction)	1,317,393	701,632
	$ 36,014,170	$ 27,576,935
INTEREST AND OTHER DEDUCTIONS –		
Interest on bonds and debentures	$ 14,332,891	$ 9,454,397
Other interest and amortization of debt discount and expense	1,930,451	1,580,835
	$ 16,263,342	$ 11,035,232
Net income	$ 19,750,828	$ 16,541,703
Dividends of $4,225,963 in 1967 and $3,907,392 in 1966 to preference and preferred shareholders of subsidiaries and minority interest of ordinary and common shareholders in the net income of subsidiaries for the year	11,028,383	9,828,849
Consolidated net income	$ 8,722,445	$ 6,712,854

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Earnings Retained for Use in the Business

For the Year ended December 31, 1967

UNAPPROPRIATED –		
Balance as at January 1, 1967		$26,854,049
Add: Net income for the year		8,722,445
		$35,576,494
Deduct:		
Dividends paid or provided for –		
4½% cumulative preferred stock	$ 281,250	
$2.90 cumulative preferred stock	362,500	
$2.65 cumulative preferred stock	848,000	
$3.15 cumulative preferred stock	567,954	
	$2,059,704	
Exchange adjustment re long-term debt	155,287	
Transfer to retained earnings – appropriated	73,229	2,288,220
Balance as at December 31, 1967		$33,288,274

APPROPRIATED FOR GENERAL CONTINGENCIES –	
Balance as at January 1, 1967	$ 1,017,168
Add: Transfer from retained earnings – unappropriated	73,229
Balance as at December 31, 1967	$ 1,090,397

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements

As at December 31, 1967

1. All subsidiaries have been included in the consolidated financial statements. The subsidiaries and equity ownership at December 31, 1967 are:

British Columbia Telephone Company	50.24%
Canadian Telephones and Supplies Ltd.	100.00%
Compania Dominicana de Telefonos, C. por A.	100.00%
Dominion Directory Company Limited	100.00%
Québec-Téléphone	53.07%
York Investment Co. Ltd.	100.00%

York Investment Co. Ltd. commenced operations on April 6, 1967.

2. CONSOLIDATED ACCOUNTS

Compania Dominicana de Telefonos, C. por A. operates in the Dominican Republic; Dominican pesos have historically been fixed at par with the United States dollar and have been converted at par with the Canadian dollar for purposes of the consolidated financial statements.

The Company's investment in and amounts due to the Company by Dominicana at December 31, 1967 aggregate $9,383,635 and the net assets of Dominicana included in the consolidation aggregate $15,009,083.

Due to exchange control restrictions in the Dominican Republic, as at December 31, 1967, the sum of $2,447,216 (of which $2,072,210 represents dividends declared and interest thereon and $375,006 represents service fees) has not been remitted to the Company by Dominicana. Of this amount $788,297 is in respect of 1967, $827,459 is in respect of 1966 and $831,460 is in respect of 1965 and prior years.

CORPORATE ACCOUNTS

As a result of the unsettled conditions which arose in the Dominican Republic in 1965, the Company made no accruals in its books for dividends, interest and service fees from Dominicana applicable to that year, and is taking such items into its corporate income when remittances in respect thereof are received ($288,564 received in 1967). Since the situation has now become more stabilized, the Company has renewed its accruals of such income effective January 1, 1966, and accordingly corporate income for 1967 includes dividends, interest thereon and service fees applicable to the current year, together with interest in respect of unremitted dividends of prior years.

3. In January 1961 Dominicana, under the terms of a contract with the then existing Government of the Dominican Republic and consequent upon an issue of 33,817 shares of Dominicana common stock to the Company, offered for sale to unspecified Dominican persons or entities 40% of such shares (representing approximately 13% of the issued capital stock of Dominicana) for a period of seven years from date of the offer. This offer expired without acceptance in January 1968.

The contract also stipulates that the Dominican Government has the right to acquire at any time during the life of the contract the telephone, telegraph and radio-telegraph property and related assets and liabilities of Dominicana at underlying book value.

4. CAPITAL STOCK

The capital stock of the Company is as follows at December 31, 1967:

	Shares	Amount
Authorized:		
Cumulative preferred stock (redeemable at $53 per share) of the par value of $50 per share	1,000,000	$50,000,000
Common stock of the par value of $10 per share	1,700,000	17,000,000
		$67,000,000
Issued:		
4½% cumulative preferred stock	125,000	$ 6,250,000
$2.90 cumulative preferred stock	125,000	6,250,000
$2.65 cumulative preferred stock	320,000	16,000,000
$3.15 cumulative preferred stock	180,000	9,000,000
		37,500,000
Common stock	1,104,685	11,046,850
		$48,546,850

5. Outstanding Preference and Preferred Shares of Subsidiaries owned by Public:

	Redemption premium		
British Columbia Telephone Company			
Par value of $100 each			
6% cumulative preference shares	10%	$ 1,000,000	
6% cumulative preferred shares	5	4,500,000	
5¾% cumulative redeemable preferred shares	4	10,000,000	
5.15% cumulative redeemable preferred shares	5	12,000,000	
4¾% cumulative redeemable preferred shares	5	7,500,000	
4¾% cumulative redeemable preferred shares (Series 1956)	4	7,500,000	
4½% cumulative redeemable preferred shares	4	5,000,000	
4⅜% cumulative redeemable preferred shares	4	6,000,000	
Par value of $25 each			
4.84% cumulative redeemable preferred shares	4	20,000,000	$73,500,000
Okanagan Telephone Company			
40¢ cumulative redeemable preferred shares, par value $9 each			450,000
Québec-Téléphone			
5% cumulative redeemable sinking fund preferred shares, par value $20 each		2,628,200	
4¾% cumulative redeemable preferred shares, par value $20 each		8,000,000	10,628,200
			$84,578,200

6. Long-Term Debt

Anglo-Canadian Telephone Company		
6% Sinking Fund Debentures Series A due February 1, 1983	$ 4,160,000	
Less: Sinking fund instalment due February 2, 1968	260,000	$ 3,900,000
($260,000 principal amount retired annually under Trust Deed)		
British Columbia Telephone Company		
First mortgage bonds		
3¾% Series A due March 1, 1971	16,500,000	
3⅛% Series B due March 1, 1971	3,000,000	
3¾% Series C due March 1, 1971	8,000,000	
4½% Series D due March 1, 1971	8,000,000	
4¾% Series E due October 1, 1975	7,000,000	
5% Series F due April 1, 1982	25,000,000	
5¼% Series G due November 1, 1983	20,000,000	
6% Series H due September 15, 1984	15,000,000	
5¾% Series I due August 1, 1985	15,000,000	
5¾% Series J due July 15, 1986	20,000,000	
5⅝% Series K due April 15, 1988	20,000,000	
6¾% Series L due October 15, 1989	30,000,000	
6⅜% Series M due March 15, 1991	30,000,000	217,500,000
Okanagan Telephone Company		
First mortgage bonds		
4% Series A due February 1, 1968	458,500	
4% Series B due February 1, 1968	99,500	
5¼% Series C due July 1, 1970	500,500	
General mortgage bonds		
5 % Series A due July 1, 1971	377,000	
5% Series B due July 1, 1975	418,000	
6% Series C due July 1, 1977	352,000	
5¾% Series D due July 1, 1978	678,000	
6½% Series E due December 1, 1979	491,500	
6½% Series F due July 1, 1980	965,500	
5¾% Series G due July 1, 1984	1,593,000	
6¼% Series H due July 1, 1986	2,250,000	
	8,183,500	
Less: Current maturities and sinking fund requirement	810,000	7,373,500
Forward		$228,773,500

6. LONG-TERM DEBT (Cont'd)

Forward		$228,773,500
Québec-Téléphone		
First mortgage redeemable sinking fund bonds		
4¼% Series D due May 1, 1972 (payable in U.S. funds)	$ 850,000	
5⅝% Series F due December 1, 1984 (payable in U.S. funds)	2,865,000	
5½% Series G due October 15, 1982	4,449,000	
5½% Series H due June 1, 1987	5,491,000	
6% Series I due October 15, 1990	5,000,000	
7% Series J due January 2, 1989	5,000,000	
Currency exchange adjustment on Series D and F First mortgage bonds	301,216	
	23,956,216	
General mortgage sinking fund bonds		
5¼% Series A due May 1, 1968	2,540,500	
5% Series B due October 1, 1976	877,500	
6% Series C due November 1, 1977	2,671,000	
5¾% Series D due April 1, 1983	4,693,000	
	34,738,216	
Less: Current maturities and sinking fund requirement	2,758,788	31,979,428
		$260,752,928

Québec-Téléphone has pledged $1,695,000 first mortgage bonds Series K due January 2, 1969 as collateral for bank loans.

7. Under the terms of the Trust Deed pursuant to which the 6% Sinking Fund Debentures Series A were issued, the Company has covenanted that it will not, so long as any Series A Debentures remain outstanding, declare or pay any dividends (other than stock dividends or dividends on its cumulative preferred shares from time to time outstanding and fully paid up in cash), which would reduce the unappropriated surplus of the Company (unconsolidated) below the amount of $4,083,011. As at December 31, 1967 the unconsolidated unappropriated surplus of the Company amounted to $14,577,160.

8. In January 1968, the Company borrowed from its parent company (General Telephone & Electronics Corporation) an additional $10,000,000 payable on demand.

9. Provisions have been made in this and prior years by charges against income in the net amount of $27,712,538 for additional income taxes, payment of which has been deferred by claiming for income tax purposes capital cost allowances in excess of depreciation provided in the accounts. Of this amount $8,968,910 is applicable to Québec-Téléphone, which company has provided for deferred taxes up to and including 1967. The balance of $18,743,628 is applicable to British Columbia Telephone Company and includes amounts provided by Okanagan Telephone Company.

In the fiscal years 1954 to 1957 inclusive British Columbia Telephone Company deferred payment of a portion of its provisions for income taxes by claiming capital cost allowances in excess of depreciation provided for such years. This practice was discontinued in 1958 following the passing of a Federal Order-in-Council requiring the Board of Transport Commissioners for Canada to recognize only income taxes actually paid in determining the company's rates and charges. This Order-in-Council was rescinded in February, 1967.

British Columbia Telephone Company has resumed the practice of deferring a portion of its income taxes otherwise payable and the 1967 tax provision by that company includes $8,441,982 so deferred. A further $442,102 for British Columbia Telephone Company and $88,549 for Québec-Téléphone has been deferred for 1966 in conformity with amendments to the Income Tax Act made effective for that year.

10. The provision for contingencies of $414,690 was charged against income in 1965 to provide for unknown possible losses arising out of the insurrection in the Dominican Republic in April 1965. Dominicana is also being sued by its employees for damages of $500,000 arising out of an alleged breach of the Dominican Labour Code. Counsel for Dominicana believes there are solid grounds for obtaining dismissal of this law suit.

11. The pension liability for past service of all employees of British Columbia Telephone Company who were not eligible to retire was actuarially determined to be approximately $22,000,000 as at December 31, 1964. Commencing January 1, 1965 that company has funded $1,385,000 per annum which, it is estimated, will amortize the liability for past service together with interest thereon over twenty-five years. The unamortized pension liability is estimated to be $20,419,000 at December 31, 1967.

12. British Columbia Telephone Company has announced construction programmes for additional telephone plant and facilities in 1968 which are estimated to cost $70,000,000, and substantial purchase commitments have been made in connection therewith. That company is financing these construction programmes by cash available from operations to the extent of approximately $40,000,000, and the balance by temporary bank loans pending permanent public financing.

Auditors' Report

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

630 Dorchester Blvd. W.
Montreal 2

January 31, 1968

TO THE SHAREHOLDERS
ANGLO-CANADIAN TELEPHONE COMPANY

We have examined the accompanying financial statements of Anglo-Canadian Telephone Company and subsidiaries for the year ended December 31, 1967, comprising the balance sheet and the consolidated balance sheet as at that date, and the statements of income and expenses and retained earnings for the year then ended and have obtained all the information and explanations we have required. Our examination of Anglo-Canadian Telephone Company and subsidiaries (except Québec-Téléphone and York Investment Co. Ltd.) of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiaries not examined by us.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies the aforementioned statements, when read in conjunction with the notes thereto and subject to the satisfactory outcome of the matters referred to in Note 2 and the effect thereof on the assets and earnings of the subsidiary referred to therein, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiaries as at December 31, 1967 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

Auditors

Printed in Canada Plow & Watters Limited Montrea